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**COMPLIANCE  
MEMORANDUM**

**RECEIVED**

2002 FEB 25 P 2:41

**AZ CORP COMMISSION  
DOCUMENT CONTROL**

**TO:** Docket Control Center  
**FROM:** Patrick C. Williams   
Manager, Compliance and Enforcement  
Utilities Division  
**DATE:** February 25, 2002

This Memorandum to the Docket will certify that compliance, as described below, has been met for the referenced utility.

**UTILITY:** Arizona-American Water Company

**DOCKET NO.** W-01303A-00-0929 **DECISION NO.** 64002

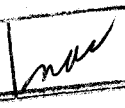
**COMPLIANCE ACTION:**

*File copies of all executed financing documents setting forth the terms and conditions of the financing with the Compliance Section of the Commission's Utilities Division within 30 days of execution of said documents.*

**DUE DATE:** **DATE COMPLIED:** 02/25/2002

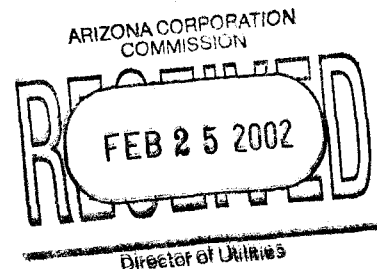
Arizona Corporation Commission  
**DOCKETED**

FEB 25 2002

DOCKETED BY	
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*Pat Williams*

LAW OFFICES  
**FENNEMORE CRAIG**  
A PROFESSIONAL CORPORATION



**NORMAN D. JAMES**

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February 22, 2002

Mr. Ernest Johnson  
Director of Utilities  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

**Re: Arizona-American Water Company; Decision No. 64002, August 30, 2001**

Dear Mr. Johnson:

We are the attorneys for Arizona-American Water Company ("the Company"), and have been authorized to act on the Company's behalf in connection with this matter.

In Decision No. 64002, filed August 30, 2001, the Arizona Corporation Commission ("the Commission") authorized the Company to issue certain short-term and long-term debt instruments in connection with the acquisition of the water and wastewater systems and assets of Citizens Communications Company in Arizona. The decision directed the Company to provide copies of all executed financing documents setting forth the terms and conditions of the financing with the Compliance Section of the Commission's Utilities Division within 30 days of execution of said documents.

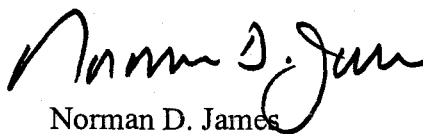
In accordance with the foregoing requirement, I am enclosing copies of two promissory notes, both dated January 14, 2002, reflecting (1) long-term borrowing in the amount of \$154,948,119, which sum was used to purchase Citizens assets on January 15, 2002, and (2) the assumption of certain outstanding industrial development revenue bonds in the amount of \$10,635,000.

## FENNEMORE CRAIG

Mr. Ernest Johnson  
February 22, 2002  
Page 2

Copies of this letter as well as the promissory notes are also being provided to Patrick Williams, the Commission's Compliance Officer. Please let me know if you have any questions or require any additional information.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Norman D. James". The signature is fluid and cursive, with the first name "Norman" being more prominent and the last name "James" written in a more compact, cursive style.

Norman D. James

NDJ/mlh  
Enclosures

cc: Patrick Williams (w/enc.)  
Arizona-American Water Company

1274242.1

PROMISSORY NOTE FOR LONG-TERM BORROWING  
4.92% Maturity - November 6, 2006

\$154,948,119.00

January 14, 2002

FOR VALUE RECEIVED, Arizona-American Water Company, an Arizona corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, NJ or such other place as Lender may from time to time designate, the principal sum of One Hundred and Fifty-Four Million, Nine Hundred and Forty-Eight Thousand, One Hundred and Nineteen dollars (\$154,948,119.00), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Arizona-American Water Company

By: B. J. Durner VP-Treasurer  
Name and Title:

PROMISSORY NOTE  
FOR LONG-TERM BORROWING  
Citizens Utilities Maricopa Series 1988, Maturity – September 1, 2028  
(Variable Rate)

\$10,635,000.00

January 14, 2002

FOR VALUE RECEIVED, Arizona-American Water Company, an Arizona corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, NJ or such other place as Lender may from time to time designate, the principal sum of Ten Million, Six Hundred and Thirty-Five Thousand dollars (\$10,635,000.00), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

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(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

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Arizona-American Water Company

By: B. Kent Dunn VP-Treasurer  
Name and Title: